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FM AMCONSUL SHANGHAI  
TO RUEHC/SECSTATE WASHDC 7447  
INFO RUEHBJ/AMEMBASSY BEIJING 2373  
RUEHCN/AMCONSUL CHENGDU 1624  
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC  
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RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEHC/DEPT OF LABOR WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHGZ/AMCONSUL GUANGZHOU 0083  
RUEHHK/AMCONSUL HONG KONG 1792  
RHEHAAA/NSC WASHINGTON DC  
RUEHGH/AMCONSUL SHANGHAI 8058  
RUEHSH/AMCONSUL SHENYANG 1616  
RUEHGP/AMEMBASSY SINGAPORE 0197

UNCLAS SECTION 01 OF 02 SHANGHAI 000557

SENSITIVE  
SIPDIS

TREASURY FOR AMB HOLMER/WRIGHT/TSMITH  
TREASURY FOR OASIA/INA - DOHNER/HAARSAGER/WINSHIP/CUSHMAN  
TREASURY FOR IMFP - SOBEL/MOGHTADER  
USDOC FOR ITA DAS KASOFF, MELCHER, MAC/OCEA  
NSC FOR WILDER/LOI  
STATE PASS CEA FOR BLOCK  
STATE PASS USTR FOR STRATFORD/WINTER/MCCARTIN/KATZ/MAIN  
STATE PASS CFTC FOR OIA/GORLICK

E.O. 12958: N/A

TAGS: [CH](#) [EFIN](#) [ECON](#) [PGOV](#) [ETRD](#)

SUBJECT: (SBU) U.S. CHICKEN EXPORTER FACING TRADE FINANCING  
DIFFICULTIES

11. (SBU) Summary. A shortage of trade finance in Hong Kong is causing problems for Tyson Foods, Inc., imports of chicken into China. The troubles with trade finance are squeezing the US\$400 million in revenues that Tyson earns annually from chicken parts sales in the China market. The high margins for chicken feet sales to Hong Kong traders had been a key profit center for Tyson, so U.S. chicken prices may rise if the difficulties continue, said our Tyson contact. In the medium term, Tyson expects competition with Brazil for the China market to heat up. Separately, Tyson has noticed an uptick in local government attention to environmental controls, and also reports that the pool of available low-skill labor is significantly larger. End summary.

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Financial Crisis Hitting Hong Kong Traders . . .  
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12. (SBU) A shortage of trade finance in Hong Kong is causing problems for Tyson Foods, Inc., imports of chicken into China. Jim Rice, Tyson's Country Manager for Greater China (please protect), who is based in Shanghai, told Congenoffs on December 5, 2008. Hong Kong banks are not lending to the middlemen who traditionally have imported the chicken parts -- mostly chicken feet -- because the banks are raising their assessment of risks. First, the banks are demanding that borrowing be overcollateralized. Where before the Hong Kong traders had been able to borrow twice or more the value of their collateral -- typically property in Hong Kong -- now the banks are willing to lend only 80 percent of the value. Rice speculated that this may be related to the decline in property values in Hong Kong. Second, Rice suggested that Hong Kong banks are reassessing risk in the China market, perhaps anticipating a downturn in consumer demand and seeking to reduce their exposure. According to Rice's estimate, the financing problems began the week of November 17.

13. (SBU) The troubles with trade finance are squeezing the

US\$400 million in revenues that Tyson earns annually from chicken parts sales in the China market. As Rice described it, Tyson processes 45 million chickens a week in its U.S. facilities, resulting in 90 million chicken feet that would go to waste if not for the China market. The feet have an imputed value of 2 cents a pound in the United States, but in recent years have sold for 70 cents a pound in the China market, said Rice. With the financing troubles, however, Tyson cannot move the volume of chicken feet required, and the Hong Kong traders that are able to access financing are in a buyer's market. As a result, the price that Tyson can get in the Hong Kong market has plummeted to 30 cents a pound.

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. . . And Could Redound to U.S. Consumers  
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¶4. (SBU) The high margins for chicken feet sales to Hong Kong traders had been a key profit center for Tyson, said Rice, so U.S. chicken prices may rise if the difficulties continue. The front half of the bird is generally sold in the U.S. market, while the back half is sold abroad: the leg quarters to Russia and the feet to China. (Note: Rice said that Tyson's problems were worsened by the continuing problems with sales of legs in Russia due to the economic downturn and protectionism there. End note.) One-quarter of U.S. poultry industry profits are from China, and if the problems are not resolved, chicken prices in the United States could double, said Rice.

¶5. (SBU) Tyson is not prepared to take on the financing risk itself, said Rice. The poultry business already has large invested operating capital, since the "grandparents" of the

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flocks must be cultivated in order to have the necessary meat and egg production levels. Tyson sells the chicken feet to Hong Kong traders on a cash-before-shipment basis through letters of credit.

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Tyson's Competition With Brazil  
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¶6. (SBU) Farm products shippers in Brazil offer Tyson its main competition in the China market, said Rice. Altogether, in addition to the past sales of US\$400 million in chicken parts, Tyson supplies the China market with US\$200 million in beef -- also through Hong Kong channels -- and US\$100 million in hides. Currently, Brazilian chicken exporters do not have an agreement with China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), so the difficulties they have in moving product through Hong Kong add significantly to their costs. However, Brazil is home to the lowest cost producers, and they are set up specifically for exports, so eventually they will be much more competitive in the China market.

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Observations on Environmental Controls, Labor Movements  
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¶7. (SBU) Rice said that he was impressed with the priority that localities were paying to pollution control requirements for foreign investors. Recently, Tyson was meeting with the Mayor of Changchun with respect to negotiations over basing a facility there. Rice said that the first question the mayor asked was how much the facility would pollute, and what the environmental impact would be. In years past, said Rice, the topic would not even have been raised.

¶8. (SBU) In a comment on the movement of migrant labor conditions in coastal China, Rice said that his employees report that there are already some 100,000 people a day waiting for trains at the Guangzhou Railway Station in what appears to be an earlier than usual wave of workers returning home for Spring Festival. His human resource personnel also say that the labor shortage of recent months has reversed, and there is no longer a

problem to higher low-skill laborers. There are now plenty of people willing to work for low wages, Rice said.

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